

---

## **Review of Local Government Audit Reports**

Fiscal Year Ending June 30, 2015

---



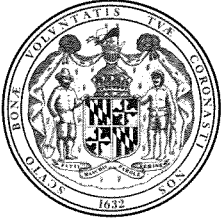
**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

**For further information concerning this report contact:**

**Department of Legislative Services**  
**Office of Legislative Audits**  
301 West Preston Street, Room 1202  
Baltimore, Maryland 21201  
Phone: 410-946-5900 · 301-970-5900  
Toll Free in Maryland: 1-877-486-9964  
Maryland Relay: 711  
TTY: 410-946-5401 · 301-970-5401  
E-mail: [OLAWebmaster@ola.state.md.us](mailto:OLAWebmaster@ola.state.md.us)  
Website: [www.ola.state.md.us](http://www.ola.state.md.us)

**The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.**

*The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.*



DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

September 21, 2016

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Delegate C. William Frick, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

The Honorable Peter V. R. Franchot  
Comptroller of Maryland

Mr. Warren G. Deschenaux, Executive Director  
Department of Legislative Services

Ladies and Gentlemen:

In accordance with the Local Government Article, Section 16-307 of the Annotated Code of Maryland, we have performed desk reviews of the audit reports filed by each county, incorporated city or town, and taxing district in Maryland for the fiscal year ended June 30, 2015. The desk reviews consisted of assessments of compliance with certain accounting and auditing standards, evaluations of compliance with certain State laws, and analyses of selected financial data to identify potential financial problems.


Most of the financial statements filed by the local governments for the fiscal year ended June 30, 2015, along with the related independent auditors' reports, complied with the accounting and auditing standards that we assessed. Nevertheless, we identified instances of noncompliance with certain requirements of our audit guidelines, generally accepted accounting principles, and/or generally accepted auditing standards. Letters were sent to 50 local governments and, as applicable, to their independent auditors to notify them of the deficiencies disclosed by our reviews so that corrective actions could be taken to help ensure future compliance.

A number of audit reports were not filed timely in accordance with the requirements of State law. As of July 29, 2016, nine local governments had not submitted audit reports for the fiscal year ended June 30, 2015. Additionally, two of these nine local governments had also not filed audit reports for the fiscal years ended June 30, 2014 and June 30, 2013. If a local government does not comply with the audit report filing requirements, State law provides that the Comptroller, on notice from the Executive Director of the Department of Legislative Services, may order the discontinuance of all moneys, grants, or State aid to which the local governments are entitled. Accordingly, provisions were included in Chapter 143, 2016 Laws of Maryland (the State's Budget Bill) to withhold certain transportation aid for the two aforementioned local governments until the governments have submitted audit reports for fiscal year 2015, 2014, and 2013.

The financial statements disclosed 12 local governments with cash deposits that were not adequately collateralized, or otherwise insured, which is also an area of noncompliance with State law. In addition, our desk reviews identified three local governments with potential financial problems, as indicated by a deficit fund balance or unfavorable financial trends.

As appropriate, letters were sent to these local governments, and to their legislative representatives, to communicate their noncompliance or potential financial problems, and to request that the local governments advise us of the corrective actions that will be taken.

Respectfully submitted,

  
Thomas J. Barnickel III, CPA  
Legislative Auditor

## Table of Contents

<b>Introduction and Scope</b>	5
<b>Results of Desk Reviews</b>	7
<b>Audit Reports</b>	
Finding 1 – A number of local governments had not filed the required audit reports or had filed after the required filing date.	7
Finding 2 – The auditor’s report for one local government contained an adverse opinion on one opinion unit and a qualified opinion on another opinion unit, and one other local government auditor’s report contained a qualified opinion on one opinion unit.	8
Finding 3 – Auditors’ reports for eight local governmental units were not presented in accordance with certain generally accepted auditing standards.	9
<b>Financial Statements</b>	
Finding 4 – Financial statements submitted by 19 local governments did not meet certain requirements of generally accepted accounting principles.	10
Finding 5 – Financial statements and accompanying notes for five local governments did not include certain disclosures required by generally accepted accounting principles.	11
<b>Noncompliance with State Law</b>	
Finding 6 – Financial statements of 12 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law.	11
<b>Potential Financial Problems</b>	
Finding 7 – An unrestricted general fund deficit balance was noted for one local government as of June 30, 2015.	12
Finding 8 – Significant unfavorable trends and ratios were noted for two local governments as of June 30, 2015.	12

<b>Special Taxing Districts</b>	
Finding 9 – The required reports had not filed for four special taxing districts as of July 29, 2016.	13
<b>Exhibit A – Schedule of Audit Reports Containing Disclosures That Cash Deposits Were Not Fully Collateralized or Otherwise Insured</b>	14
<b>Exhibit B – Schedule of General Fund Deficits</b>	16
<b>Exhibit C – Schedule of Unfavorable General Fund Trends and Ratios</b>	17

## **Introduction and Scope, Objectives, and Methodology**

The Local Government Article, Section 16-306 of the Annotated Code of Maryland requires each county, incorporated city or town, and taxing district in Maryland to file annual (or once every four years under specified conditions) audit reports. There were 194 local government audit reports due for our fiscal year 2015 review (25 counties, 155 cities and towns, and 14 taxing districts). The reports are to include financial statements, with accompanying notes, and auditors' reports that express opinions as to whether the financial statements are fairly presented. The financial statements are required to be prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards. We have prepared and distributed audit guidelines to provide additional information regarding the accounting, reporting, and auditing requirements.

The Local Government Article, Section 16-307 of the Code requires the Office of Legislative Audits to perform a desk review of each local government's annual audit report for compliance with generally accepted accounting principles and auditing standards. As part of the desk review process, we also addressed other attributes as described below. Section 16-308 of the Article specifies the reporting and review requirements applicable to special taxing districts created by the counties. The applicable county is responsible for reviewing each special taxing district's compliance with the applicable provisions of the law and for submitting the districts' reports to the Office of Legislative Audits. The Office is required to review the results of the counties' reviews and the districts' reports for compliance with the law.

We conducted a desk review of each of the fiscal year 2015 reports that had been received from the counties, incorporated cities and towns, and taxing districts, as well as four fiscal year 2014 reports (Baltimore City, City of Glenarden, City of Hyattsville, and Town of Morningside) and three fiscal year 2013 reports (City of Glenarden, City of Hyattsville, and Town of Morningside). The desk reviews consisted of reading each audit report in order to accomplish the following tasks:

- Identify areas of noncompliance with our audit guidelines and certain accounting and auditing standards pertaining to the presentation of the financial statements and auditors' reports.
- Identify any instances of noncompliance with certain provisions of State law (for example, collateral for bank deposits, timely filing of audit reports).

- Identify local governments with potential financial problems relating to deficit fund balances or unfavorable trends and ratios, based on analyses of financial data over the most recent five-year period (July 1, 2010 through June 30, 2015).

We also reviewed each of the fiscal year 2015 special taxing district reports received and the related results of the counties' reviews of these reports. The purpose of our review was to ensure that the counties had reviewed the reports submitted for compliance with the provisions of the law and to identify instances in which required reports were not submitted.

At the conclusion of our review, letters are sent to applicable local governments and their independent auditors to notify them of the deficiencies disclosed during the review so that corrective actions can be taken to help ensure future compliance. Additionally, as appropriate, letters are also sent to local governments, and to their legislative representatives, to communicate noncompliance with State law or potential financial problems. For these issues, the local governments are asked to advise us of corrective actions that will be taken.



## Results of Desk Reviews

### Audit Reports

#### **Finding 1**

**A number of local governments had not filed the required audit reports or had filed after the required filing date.**

As of July 29, 2016, two local governments had not filed audit reports for fiscal years 2013, 2014, and 2015, and seven other local governments had not filed audit reports for fiscal year 2015. Furthermore, 31 local governments submitted audit reports after the required filing date. The submission of audit reports after the required filing date was also noted for 11 of these 31 local governments during our preceding year's review. The failure of a local government to file an audit report, or a delay in filing, results in the lack of timely accountability to its citizens. The Local Government Article, Section 16-306 of the Annotated Code of Maryland generally requires audit reports to be filed on or before October 31 after the close of the fiscal year or on or before December 31 after the close of the fiscal year for those local governments with a population of more than 400,000.

Audit reports for the fiscal years ended June 30, 2013, June 30, 2014, and June 30, 2015 had not been received, as of July 29, 2016, for the Town of Deer Park and the Town of Marydel. Budget language adopted during the 2016 Session of the Maryland General Assembly (Chapter 143, 2016 Laws of Maryland) has resulted in the withholding of certain transportation aid from these two local governments pending receipt of their audit reports for fiscal years 2013, 2014, and 2015. Furthermore, failure to file a required report with the Department of Legislative Services for three successive years provides the Executive Director with reasonable cause to suppose that the municipality is no longer actively operating under its charter which could cause these towns to have their charter repealed. The failure of these two local governments to submit audit reports has been reported to the Executive Director.

Additionally, audit reports for the fiscal year ended June 30, 2015 had not been received, as of July 29, 2016, for the following seven governments:

1. Baltimore City
2. City of Glenarden
3. City of Hyattsville
4. Town of Morningside
5. City of Mount Rainier
6. Bel Air Special Taxing Area

## 7. Mount Savage Special Taxing Area

Budget language adopted during the 2016 session of the Maryland General Assembly provided that \$1.0 million appropriated for the purpose of a disparity grant to Baltimore City not be expended until the City submits its fiscal year 2015 and 2016 audit reports to the Department of Legislative Services.

Subsequently, the City of Mount Rainier submitted its audit report for the fiscal year ended June 30, 2015. We will review all fiscal year 2013, 2014, and 2015 audit reports and take any follow-up action necessary when the reports are received. The results of these reviews will be included in the report on our review of fiscal year 2016 local government audit reports.

The towns of Barclay, Brookview, Church Creek, Eldorado, Galestown, Goldsboro, Henderson, Highland Beach, Hillsboro, Mardela Springs, Port Tobacco, Queen Anne and Templeville had previously requested and were granted waivers from filing audit reports. These local governments met the conditions for filing an audit report every fourth year as provided for under the Local Government Article, Section 16-305 of the Code and, depending on the waiver period, will be required to file its next audit report for either fiscal year 2016, 2017, or 2018.

### **Finding 2**

**The auditor's report for one local government contained an adverse opinion on one opinion unit and a qualified opinion on another opinion unit, and one other local government auditor's report contained a qualified opinion on one opinion unit.**

The audit report for one local government contained an adverse opinion on one opinion unit and a qualified opinion on another opinion unit and one other local government report contained a qualified opinion on a certain opinion unit. The following is a summary of these opinions.

The auditor's report for the Town of Sykesville contained an adverse opinion (a statement that the financial statements are not presented fairly in conformity with generally accepted accounting principles) on the discretely presented component unit opinion unit because of the omission of financial data for the Town's component unit. Specifically, financial data related to a development corporation that is a component unit of the Town had not been audited and was not included in the Town's financial statement.

The Town's audit report also contained a qualified opinion (a statement that, except for the effects of the matter to which the qualification relates, the financial statements are presented fairly in conformity with generally accepted accounting principles) on the governmental activities opinion unit because the Town had not measured the effect of Governmental Accounting Standards Board Statement No. 49 entitled "*Accounting and Financial Reporting for Pollution Remediation Obligations.*" According to the report, certain buildings of the development corporation contained asbestos and, although deemed improbable, the Town could become liable for the cost of abatement.

As a result, the Town's financial statements were not presented in accordance with generally accepted accounting principles as required by State law. The Town's audit reports for each fiscal year since 2009 also contained an adverse opinion and a qualified opinion due to these situations.

The audit report for Baltimore City for fiscal year 2014 contained a qualified opinion on the City's Grant Revenue Fund opinion unit because, the auditor was unable to obtain sufficient evidential matter that supported approximately \$24 million of the unearned revenue reported in the fund.

Although required by our audit guidelines, the auditors for the Baltimore City did not submit a separate letter to the Office of Legislative Audits explaining the reason for the qualified opinion, and the City's plans to rectify the problem to enable the auditors to express an unqualified opinion in the future. Subsequently, we spoke with a representative of Baltimore City who stated that the City was working to rectify the situation. The auditor for the Town of Sykesville submitted a letter providing explanations regarding the opinions that were not unqualified as required, but the resolution of the applicable conditions is uncertain.

**Finding 3**

**Auditors' reports for eight local governmental units were not presented in accordance with certain generally accepted auditing standards.**

Auditors' reports for eight local governmental units were not presented in accordance with certain generally accepted auditing standards. The following is a summary of these deficiencies:

Area of Noncompliance	Number of Audit Reports
Auditor's report did not report on all required information (for example, supplemental information accompanying the basic financial statements).	5
Auditor's report did not include all basic elements (for example, auditor did not include explanatory language related to the omission of certain information).	2
Auditor did not express an opinion on all opinion units.	1

The Local Government Article, Section 16-306 of the Annotated Code of Maryland requires that audits be performed in accordance with generally accepted auditing standards. These standards require, in part, that the auditor express an opinion(s) as to whether the basic financial statements present fairly, in all material respects, the respective financial position, the respective changes in financial position, and cash flows, where applicable, of the local government in conformity with accounting principles generally accepted in the United States of America.

## Financial Statements

**Finding 4**  
**Financial statements submitted by 19 local governments did not meet certain requirements of generally accepted accounting principles.**

Financial statements submitted by 19 local governments did not meet certain requirements of generally accepted accounting principles. The financial statements of three of these local governments included two such deficiencies and the financial statements of one of these local governments included three such deficiencies. Furthermore, the financial statements of 3 of these 19 local governments included one or more deficiencies that were also cited during our preceding year's review. The following is a summary of the deficiencies and the corresponding number of instances:

Deficiency	Number of Instances
All required financial statements were not presented or presentation of statement(s) was inappropriate.	7
Governmental fund balances were not properly classified.	6
Items reported as assets, deferred outflows of resources, liabilities, and deferred inflows of resources were not properly displayed.	6
Misclassification or improper presentation (for example, presentation of net position was improper).	5

**Finding 5**  
**Financial statements and accompanying notes for five local governments did not include certain disclosures required by generally accepted accounting principles.**

Certain required information was not included in the financial statements, or in the accompanying notes, for five audit reports. Specifically, the local governments did not include certain disclosures regarding long-term debt. Adequate disclosure is necessary to facilitate the understanding of, and to provide for fair presentation of, the financial information.

### **Noncompliance with State Law**

**Finding 6**  
**Financial statements of 12 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law.**

Financial statements of 12 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law (Exhibit A). The Local Government Article, Section 17-101 of the Annotated Code of Maryland requires that deposits with financial institutions by local governmental units be fully collateralized. Full collateralization minimizes the risk of loss of deposits in the event the financial institution defaults. In addition, this law requires that collateral be of the types specified in the State Finance and Procurement Article, Section 6-202 of the Code.

## Potential Financial Problems

For the fiscal year ended June 30, 2015, the following potential financial problems were noted based on the information presented in the local governments' audited financial statements and accompanying notes.

### **Finding 7**

**An unrestricted general fund deficit balance was noted for one local government as of June 30, 2015.**

An unrestricted general fund deficit balance was noted for one local government as of June 30, 2015 (Exhibit B). The general fund is used to account for most of the current operating expenditures of a local governmental unit. A general fund deficit balance represents the costs of current or past services that will need to be financed in future periods. Consequently, a general fund deficit may indicate a potential financial problem. This local government also had a general fund deficit at June 30, 2014.

### **Finding 8**

**Significant unfavorable trends and ratios were noted for two local governments as of June 30, 2015.**

Significant unfavorable trends and ratios were noted for two local governments as of June 30, 2015 (Exhibit C). The unfavorable trends and ratios occurred because, over the five-year period reviewed, the local governments had general fund expenditures that exceeded general fund revenues, significant decreases in general fund balances, and significant decreases in the ratio of general fund balances to general fund expenditures. Significant unfavorable trends and ratios were also noted for one of these local governments in the preceding year's review.

## Special Taxing Districts

The preceding contents of this report are applicable to local governments filing audit reports in accordance with the provisions of the Local Government Article, Section 16-306 of the Code. Section 16-308 of this Article requires that certain types of special taxing districts file annual audit or financial reports with the county in which the districts are located not later than 90 days after the close of the fiscal year, in accordance with the rules and regulations established by the applicable county. The applicable county is responsible for reviewing each

district's compliance with the applicable provisions of the law and for submitting copies of these reports to the Office of Legislative Audits.

**Finding 9**

**The required reports had not been filed for four special taxing districts as of July 29, 2016.**

As of July 29, 2016, we had not received the required reports for the fiscal year ended June 30, 2015 for four special taxing districts which are located in Anne Arundel County. Anne Arundel County advised us that they were in the process of pursuing compliance with applicable filing requirements for these districts and that appropriate follow-up action would be taken (for example, withholding funds).

**Exhibit A**  
**Schedule of Audit Reports Containing Disclosures That Cash  
Deposits Were Not Fully Collateralized or Otherwise Insured**

<b>Entity</b>	<b>Uninsured/ Uncollateralized Amount</b>	<b>Similar Disclosures Included in Audit Reports for Each Year Since Fiscal Year</b>
<b><u>At June 30, 2015</u></b>		
<b>Counties</b>		
Anne Arundel County	\$258,629	2000
Wicomico County	611,484	2014
<b>Cities and Towns</b>		
Town of Brookeville	14,945	2014
Town of Burkittsville	14,409	
Town of Capitol Heights	958,578	2013
Town of Grantsville	244,945	2013
Town of Middletown	188,950	
Town of North East	34,264	
<b>Special Taxing Areas</b>		
Upper Potomac River Commission	39,040	2014
<b><u>Other Than at June 30, 2015</u></b>		
<b>Cities and Towns</b>		
Town of Glen Echo	(1)	2014
<b>Cash Deposits That Were Secured By Unacceptable Types of Collateral</b>		
<b>Cities and Towns</b>		
Town of Hancock (2)	856,309	
<b><u>At June 30, 2014 and 2013 (3)</u></b>		
<b>Cities and Towns</b>		
City of Glenarden	73,828	2013
City of Glenarden	67,818	

See explanations for (1) – (3) on the next page.



- (1) This entity did not disclose the dollar amount of the uninsured/uncollateralized cash deposits in the financial statements.
- (2) Secured by collateral which was not one of the types authorized by the State Finance and Procurement Article, Section 6-202 of the Annotated Code of Maryland at June 30, 2015.
- (3) This City's financial statements for the year ended June 30, 2013 and 2014 were not received in time to be included in our fiscal year 2013 and 2014 reviews and, thus, were reviewed during the fiscal year 2015 review. As previously mentioned in this report, this City's fiscal year 2015 audit report had not been submitted by July 29, 2016.

**Exhibit B**  
**Schedule of General Fund Deficits**  
**Fiscal Year Ended June 30, 2015**

<b>Entity</b>	<b>Unrestricted Fund Balance (Deficit) at July 1, 2014</b>	<b>Revenues and Other Increases</b>	<b>Expenditures and Other Decreases</b>	<b>Unrestricted Fund Balance (Deficit) at June 30, 2015</b>
<b>Cities and Towns</b>				
City of Crisfield	\$ (138,791)	\$ 2,605,975	\$ 2,673,733	\$ (206,549)

**Exhibit C**  
**Schedule of Unfavorable General Fund Trends and Ratios**  
**Fiscal Year Ended June 30, 2015**

<u>Entity</u>	<u>Unfavorable Trend or Ratio</u>
Town of Henderson*	<p>Expenditures exceeded revenues for the fiscal years ending June 30, 2011 through 2015.</p> <p>Fund balance decreased from \$27,463 as of June 30, 2011 to \$648 as of June 30, 2015.</p> <p>Fund balance as a percentage of annual expenditures decreased from 70% as of June 30, 2011 to 2% as of June 30, 2015.</p>
Town of Rising Sun	<p>Expenditures and other financing uses exceeded revenues and other financing sources for the fiscal years ending June 30, 2014 and 2015.</p> <p>Fund balance decreased from \$317,949 as of June 30, 2013 to \$22,988 as of June 30, 2015.</p> <p>Fund balance as a percentage of annual expenditures and other financing uses decreased from 23% as of June 30, 2013 to 1% as of June 30, 2015.</p>

\* Significant unfavorable trends and ratios were also noted for this local government for the fiscal year ended June 30, 2014.

AUDIT TEAM

**Bekana Edossa, CPA, CFE**  
Audit Manager

**Catherine M. Easter**  
Senior Auditor

**Matusala Y. Abishe**  
**Steven A. Crocker**  
Staff Auditors